A Report on Missouri's Economic Condition

July 2004

MERIC
DEPARTMENT of ECONOMIC DEVELOPMENT
MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER

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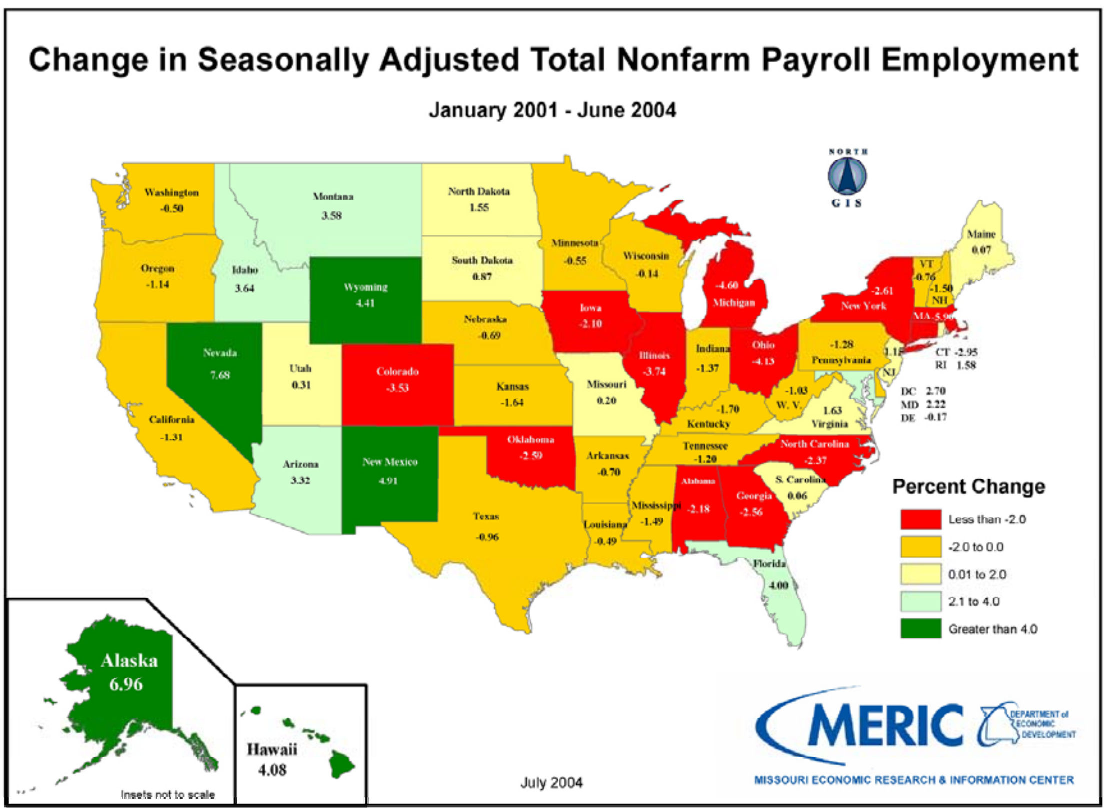
Economic recovery has been underway for more than two years.[1] Typically, considerable economic growth would have taken place during such a period of recovery, with the economy settling into a period of expansion. Since November 2001, however, the economy has been dogged by lethargic conditions. GDP growth was sporadic in the quarters following the economic trough, and labor market conditions remained very sluggish. The term "jobless recovery" was widely used to refer to this situation. It is not just that there was no job growth during the early post-recession period; employment actually continued to drop in the U.S. and in many states.

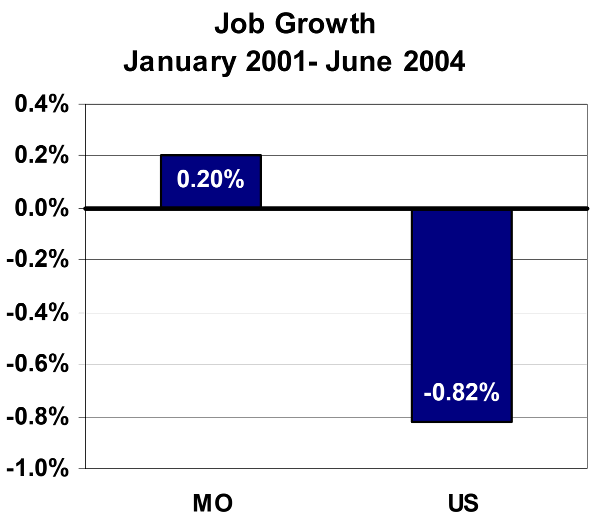
Recent data have shown a stronger economy, both in the U.S. and in Missouri. With gathering strength in the economy since mid-2003 has come an improving jobs picture. Since July 2003, national employment has grown by 1,487,000 jobs (1.15 percent), while Missouri employment is up by 82,800 jobs (3.12 percent). This exceptionally strong growth in the state has served to erase earlier job losses. In particular, the strong growth in June moved Missouri employment 5,600 jobs *above* the January 2001 level, marking the first month in which cumulative change from the beginning of 2001 has been positive.

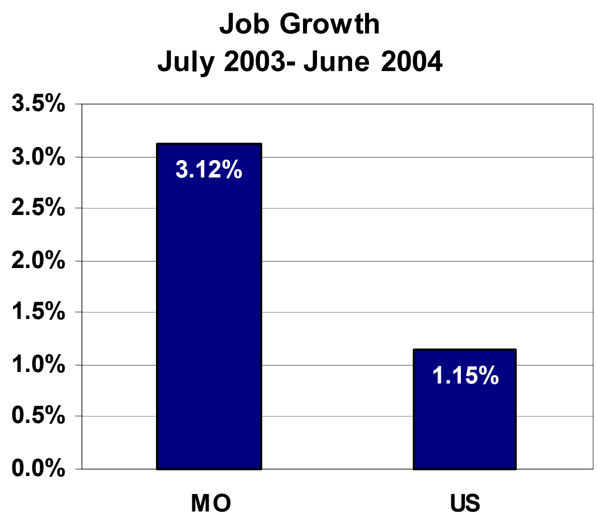


Source: U.S. Bureau of Labor Statistics

[1] The National Bureau of Economic Research's Business Cycle Dating Committee announced on July 17, 2003 that an economic trough had occurred in November 2001. This committee often waits for a long period after an apparent trough to ensure that any subsequent downturn in economic activity is part of a separate recession.

The same can still not be said for the entire U.S. economy. While Missouri has recovered its job losses since 2001, increasing employment by 0.2 percent, the nation is down by over 1 million jobs, or a 0.82 percent decline. Missouri is one of only 19 states and the District of Columbia to have registered job gains since the start of 2001. For Missouri, the “jobless recovery” is over, with the most recent economic indicators pointing to growing economic momentum and a strong business climate.



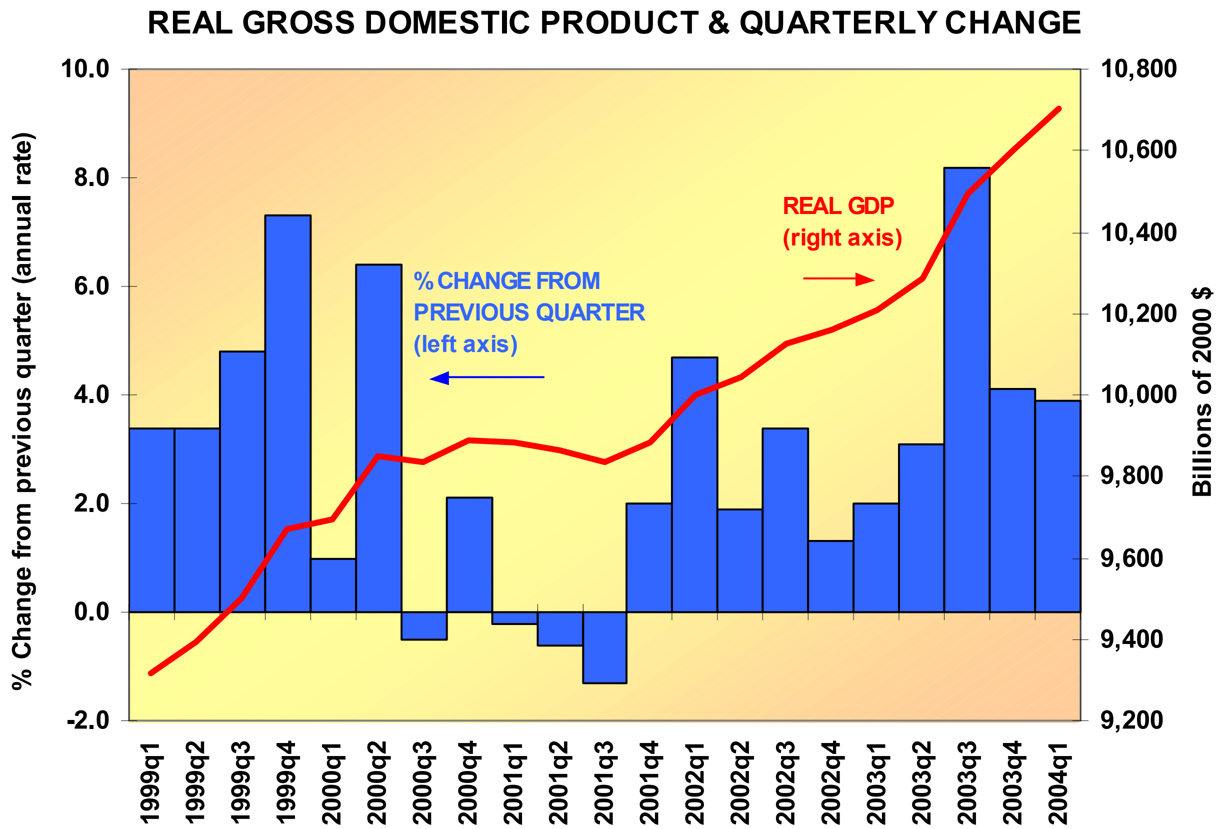


Gross Domestic Product

Gross Domestic Product (GDP) is the broadest measure of economic conditions in the U.S. Output has been expanding since the 4th quarter of 2001. Because there was not a subsequent downturn in this measure, the NBER’s Business Cycle Dating Committee finally determined that November 2001 represented a trough in economic activity rather than just a short-lived temporary improvement.

GDP growth following the trough was irregular, with growth in most of the first six quarters being 2 percent or less. Growth began to accelerate in the 3rd quarter of 2003, reaching an 8.2 percent annual rate, the best performance in nearly 20 years. The strong performance came from the private sector and was not particularly dependent on defense or other government spending. There were signs of improvement in business investment, a key but heretofore lacking ingredient in the recipe for continued economic growth.

Growth in the two subsequent quarters (4th quarter of 2003 and 1st quarter of 2004) has been slower. Still, growth in these quarters, at around a 4 percent annual rate, is strong and high by historical standards.



Source: U.S. Bureau of Economic Analysis

All in all, the data in the most recent several months represent the best economic picture since the economy started to slow in the latter half of 2000. The consensus forecast now calls for 3 to 4 percent growth for the U.S. economy for the next year, which should be high enough to produce sustained and solid job growth.

Gross State Product (GSP) is the measure of value added in production by the labor and property located in a state. It is thus similar in concept to GDP and the most comprehensive measure of economic activity in states.

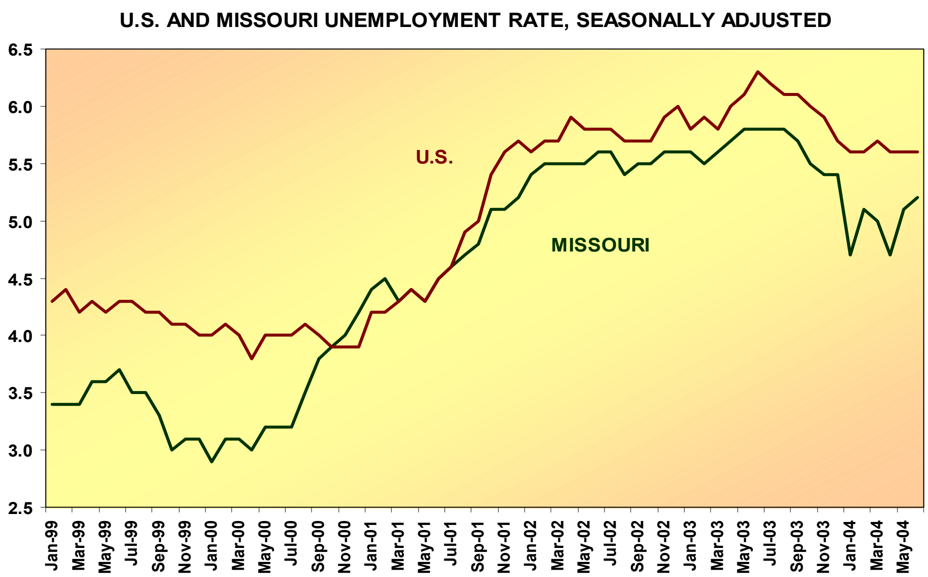
In 2001, the latest year for which data are available, GSP in Missouri was $181.5 billion, making Missouri the 19th largest state economy in the U.S. Adjusted for inflation, Missouri GSP grew by 0.4 percent from 2000, the same as the national rate of growth. Missouri's growth placed it 24th among the states. The recession took its toll on GSP growth, slowing it in most states and causing it to fall in 20 others. Of Missouri's neighboring states, Arkansas, Illinois and Iowa saw GSP decreases.

Economic Indicators

Unemployment

Missouri's unemployment rate has generally been below the U.S. rate, sometimes by a half point or more. The state's rate peaked from May 2003 to August 2003 at 5.8 percent and began to edge down after August. The rate dropped to an unusually low 4.7 percent in January and has moved irregularly since. Sometimes, unemployment can rise even when employment is growing strongly. One explanation for this phenomenon is the "encouraged worker effect." Workers who left the labor force when conditions were not promising begin to look for work again when the employment situation begins to brighten. Those entrants to the labor force who do not immediately find work are counted as unemployed.

June's rate of 5.2 percent is six-tenths of a point lower than it was a year earlier and in fact lower than in any month in 2002 or 2003. About 19,000 fewer Missourians are unemployed now than in June 2003. The national rate moved upward to a peak of 6.3 percent in June 2003. It has since receded to 5.6 percent.

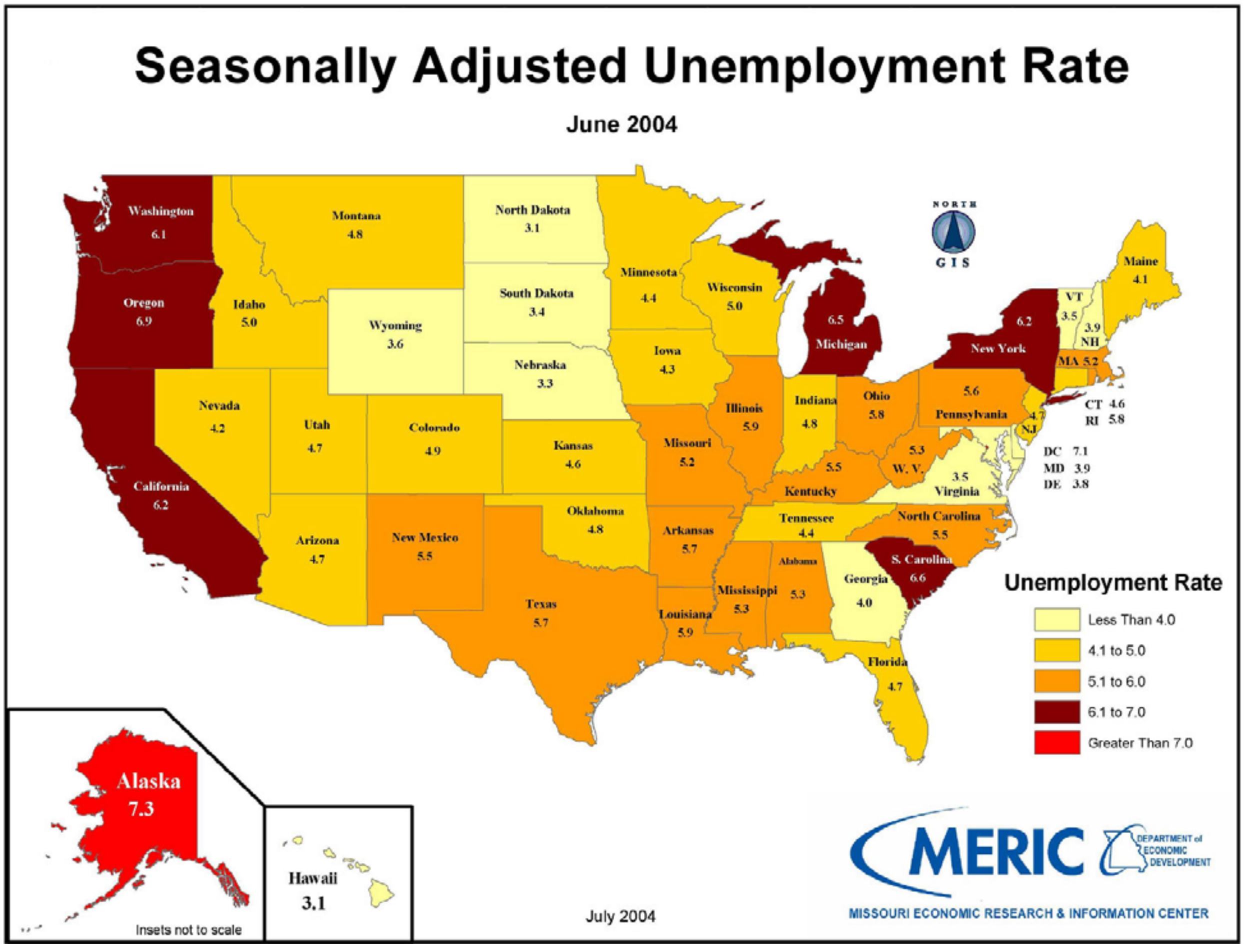


Source: U.S. Bureau of Labor Statistics

Unemployment Rate

The unemployment rate is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Labor force and unemployment estimates for states come from a cooperative statistical program between the U.S. Department of Labor's Bureau of Labor Statistics (BLS) and the various states. (MERIC is the BLS affiliate in Missouri.) State data are developed using statistical models. The inputs to these models include monthly state-specific data from the Current Population Survey (CPS – a nationwide survey of households), Current Employment Statistics program (CES – survey of employers), and claims data from the unemployment insurance system.

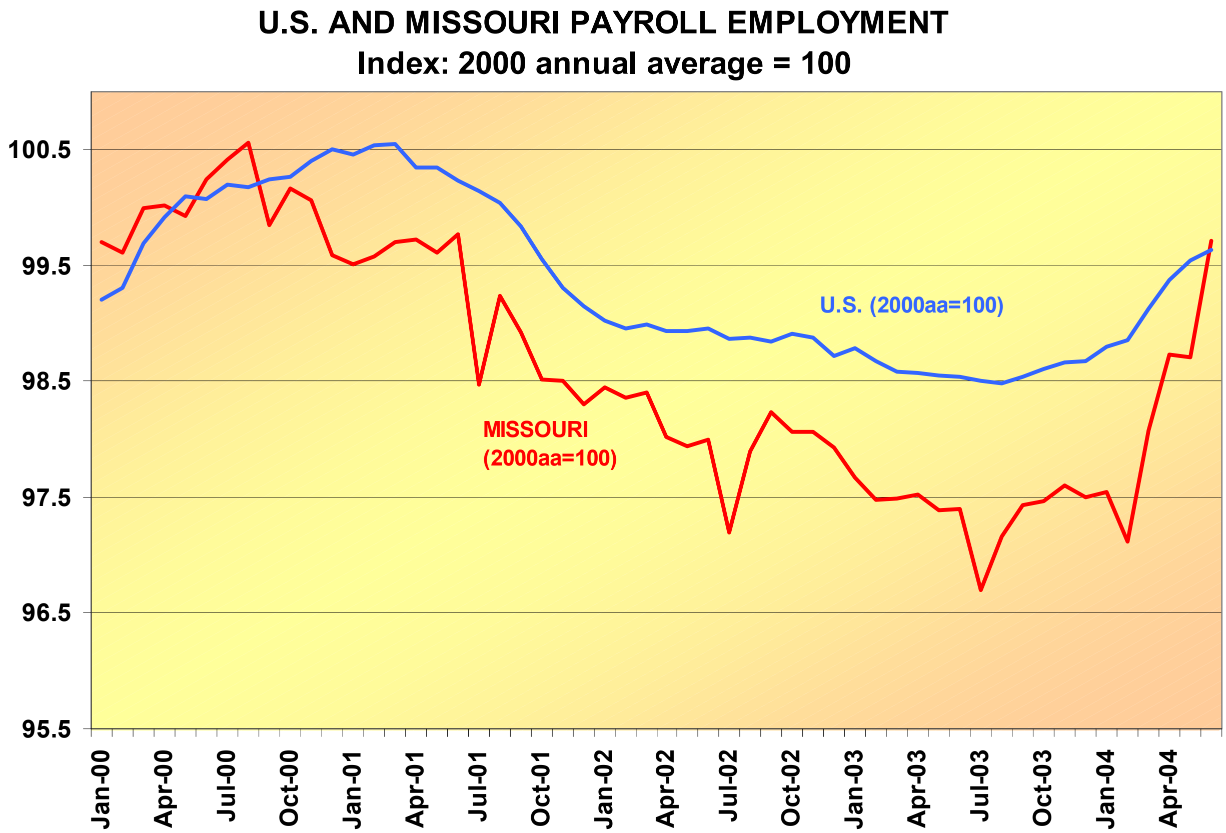


Source: U.S. Bureau of Labor Statistics

Employment

Payroll employment in both the U.S. and Missouri fell for a long time following the beginning of recession in March 2001. There were brief periods when employment appeared to be stabilizing, but these did not last. More recently, employment growth has resumed and indeed accelerated in both the U.S. and Missouri. Since July 2003, national employment grew by nearly 1.5 million jobs, while Missouri employment was up by more than 82,800, very large growth for an 11-month period. Sustained and substantial job growth more consistent with the overall economic growth now seems firmly in place.

Recent growth has been strong enough to that Missouri's employment is now back at the level it was when the recession began, about 2,740,000. Massachusetts has had the largest relative decrease over this time period: 5.9 percent. Of Missouri's neighboring states, Illinois' decrease of around 3.7 percent was the largest. Nationwide, payrolls are down by 1.1 million, or about 0.8 percent.



Source: MERIC and U.S. Bureau of Labor Statistics

Index Numbers

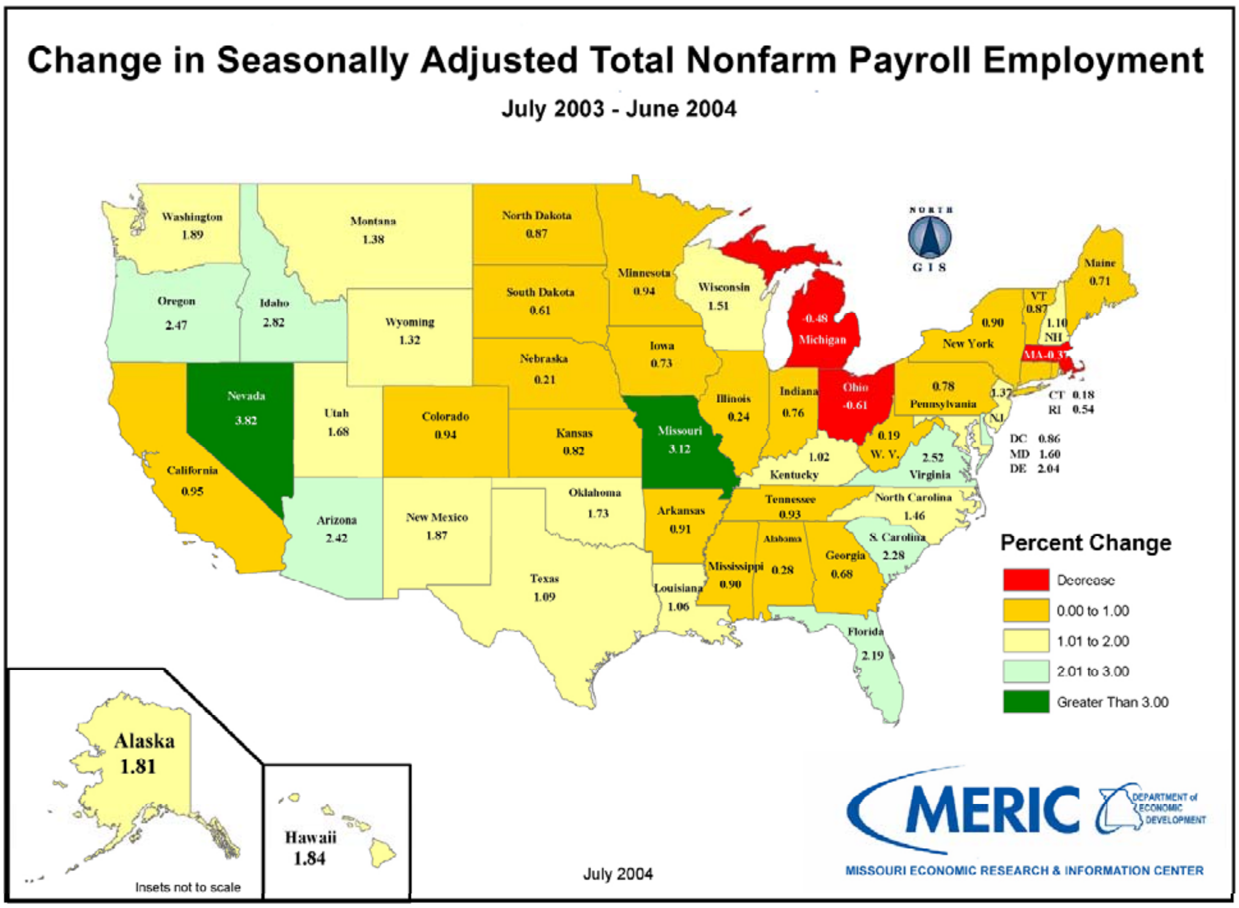
Index numbers are used to indicate relative change, particularly over time. They are especially useful when comparing values where the magnitudes are significantly different. Many measures for Missouri are roughly 1/50 the size of the corresponding national measure. As an example, showing Missouri and national population change on the same chart would not be very useful, since the Missouri line would appear to be almost flat near the horizontal axis while the national line would show more change. To better compare, a base level for each variable is arbitrarily set at 100, and values are represented as a percentage of that base value.

The previous chart shows Missouri and U.S. nonfarm payroll employment data converted to index numbers, where the annual average value of each in the year 2000 is expressed as 100. (Index numbers for each observation are calculated by dividing their actual value by the 2000 annual average and multiplying by 100.)

The chart shows Missouri employment decreasing more rapidly than national employment between late 2000 and mid-2003. Data for 2003 show Missouri employment to have dropped to about 97.5 percent of its value in the base year 2000, while national employment has remained near 98.5 percent of its 2000 value. Recently, both U.S. and Missouri employment have begun to increase, with Missouri employment having grown much more rapidly, on average, since the July 2003 trough of employment.

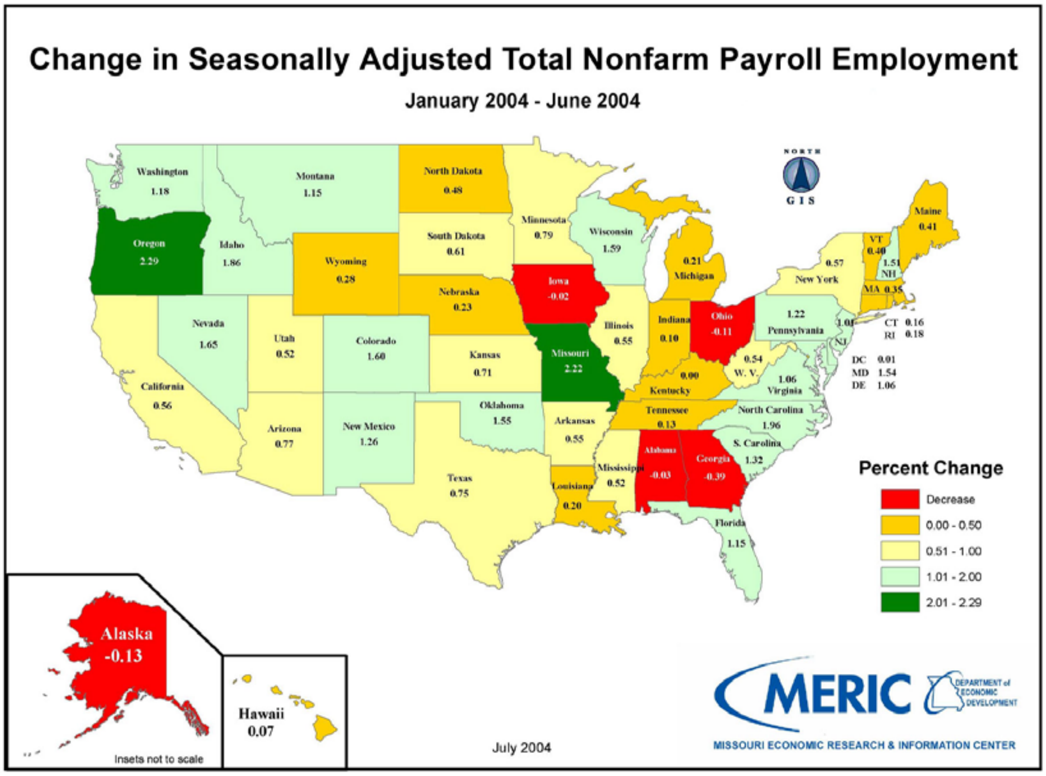
Comparing Missouri's employment changes over the past year to other states continues to be a valuable way to analyze our state's economic condition. There has been considerable variation in how states were affected by the recession and different shocks to the economy. Similarly, there has been considerable variation among states in how soon they were able to resume employment growth and how strong that growth was.

Earlier reports in this series showed varying degrees of employment decline, depending on which stages of the recession and its aftermath were being considered. Since July 2003, Missouri's total nonfarm employment has increased by 82,800 jobs, or 3.1 percent. This places Missouri 2nd among the states for job growth during that period. U.S. employment grew by 1.15 percent from July 2003 to June 2004.

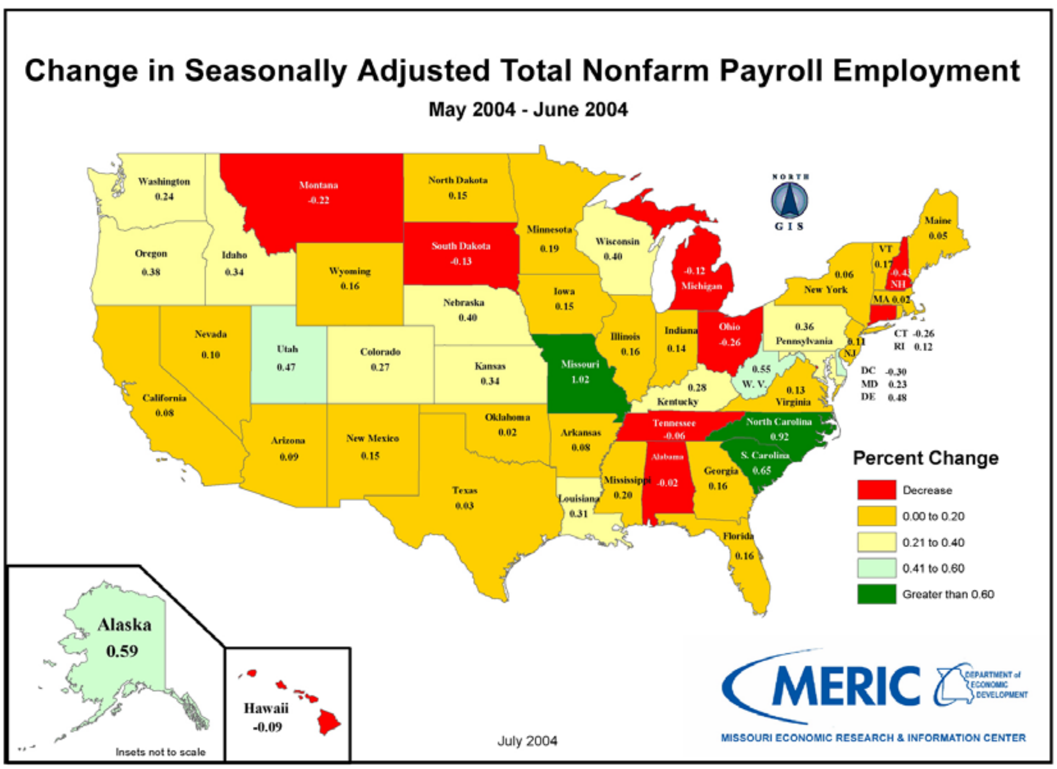


Source: U.S. Bureau of Labor Statistics

Most states have had net employment growth since the start of 2004. Missouri's employment growth of 2.22 percent puts it 2nd among the states in terms of job growth since the beginning of the year.

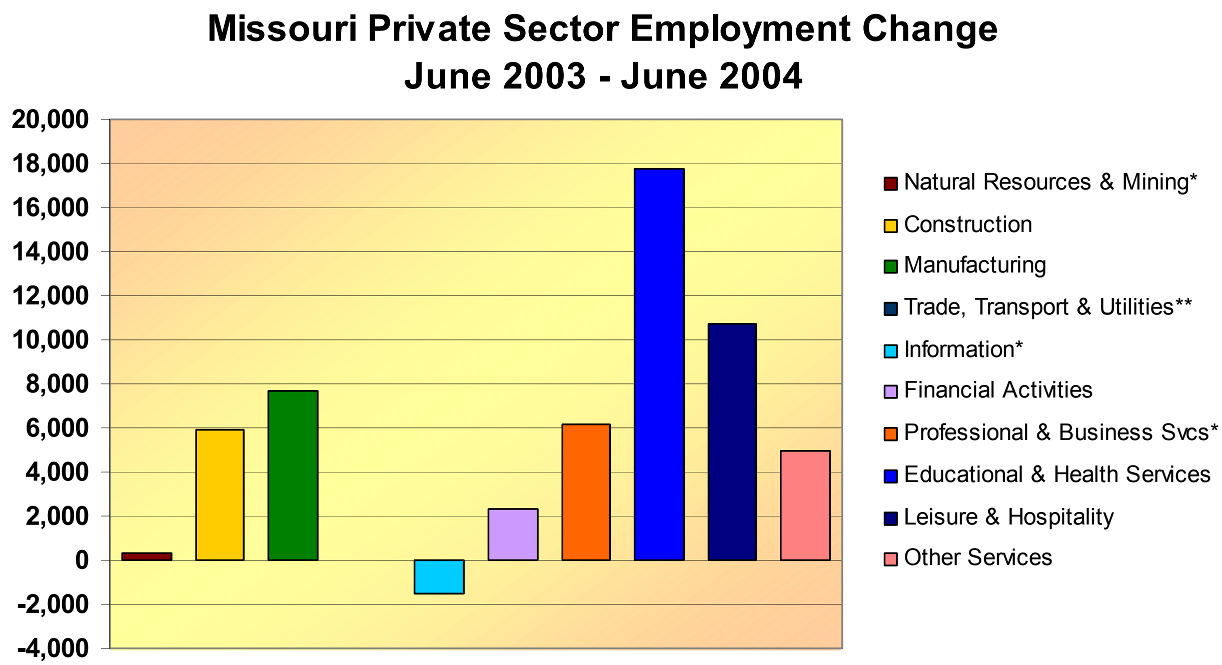


From May 2004 to June 2004, employment in the state grew by 1.0 percent, or 27,600, placing Missouri 1st among states in job growth over the month.



Source: U.S. Bureau of Labor Statistics

In the past year, most industries in Missouri have experienced employment growth, notably the education and health services and leisure and hospitality sectors. Manufacturing in the state has also added jobs which runs counter to the national trend. Employment declined in Missouri's information sector in the past 12 months while the trade, transportation and utilities sector was unchanged.



**Data in these sectors not seasonally adjusted.*
***Trade, Transportation and Utilities was unchanged.*

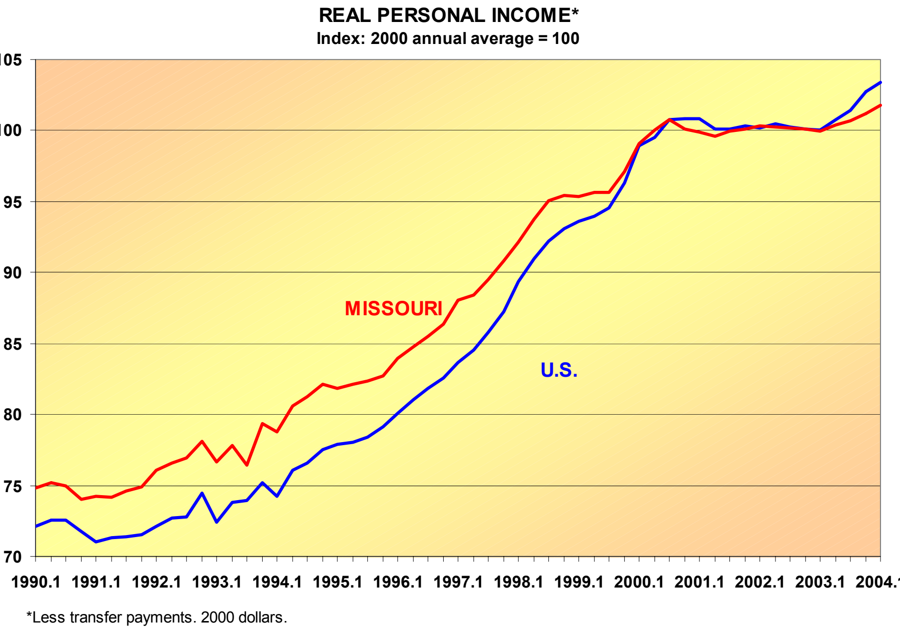
Source: MERIC and U.S. Bureau of Labor Statistics

Personal Income

Personal income is a broad measure of economic activity and one for which relatively current data are available, especially at the national level.

Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state. Earnings and wages make up the largest portion of personal income.

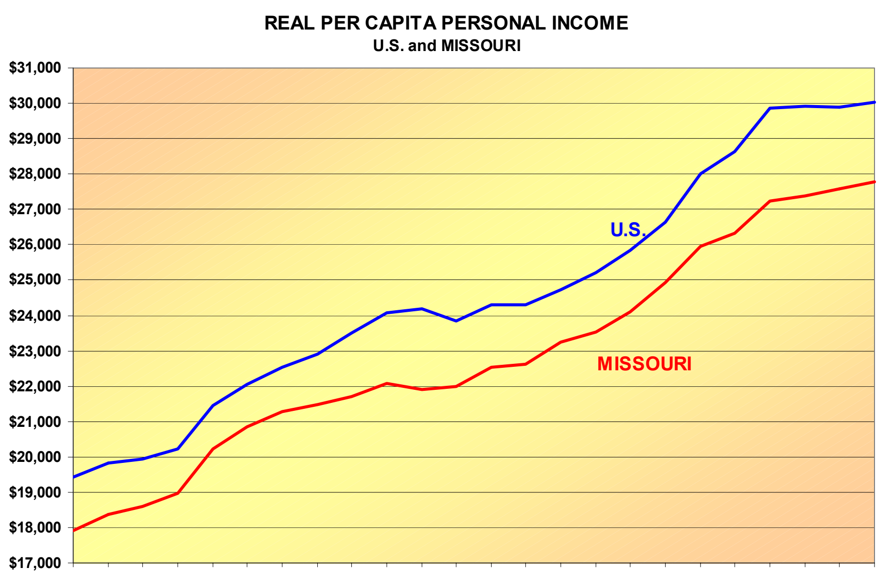
To show the vastly different levels of total personal income for the U.S. and Missouri on the same chart, these data have been converted to index numbers.



Source: MERIC and U.S. Bureau of Economic Analysis

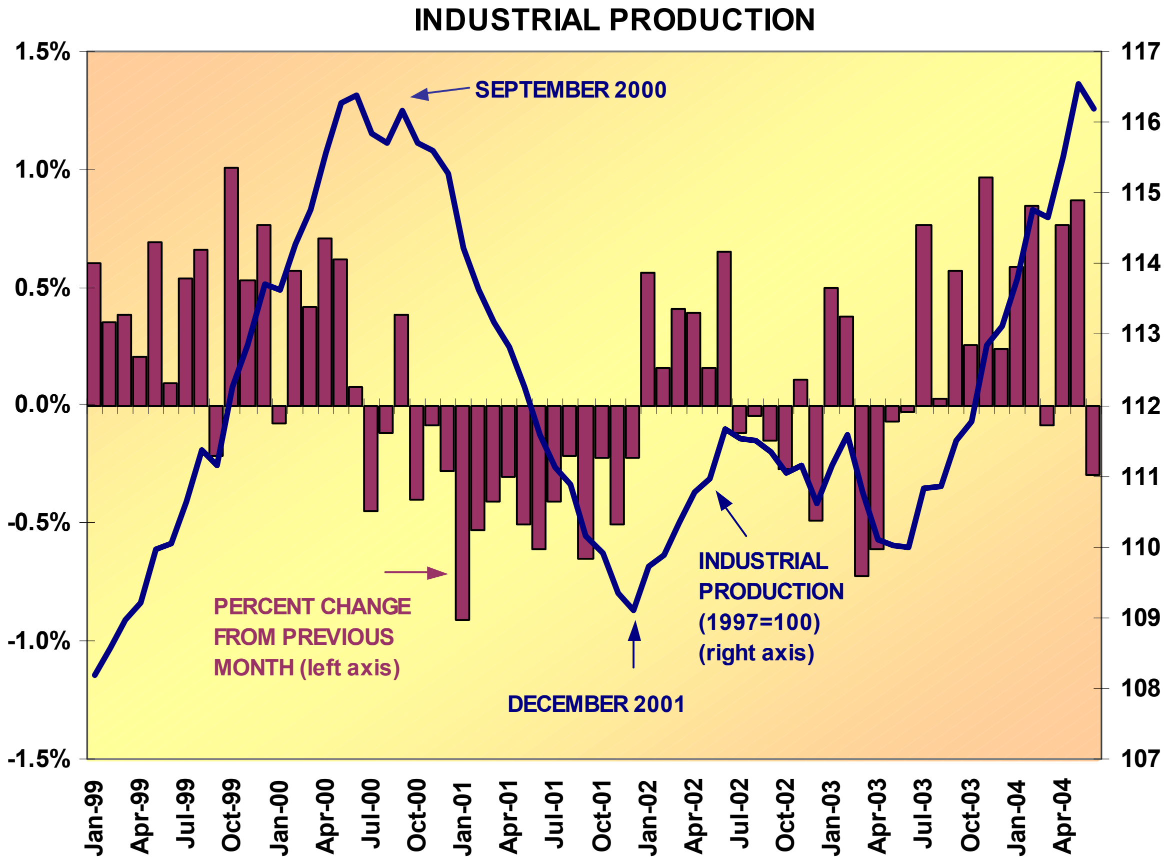
The above chart shows a comparison of Missouri and U.S. growth in real personal income (less transfer payments). The year 2000 has been selected as the base year. In the period since 2000 (generally reflecting the recession and a short period before, as well as the more recent recovery), real personal income was essentially flat in both Missouri and the U.S. However, the most recent quarters have shown some steady growth. Missouri's personal income has generally moved similarly to that of the nation.

Comparing annual average data, Missouri total personal income grew by 3.2 percent between 2002 and 2003, compared to the national growth rate of 3.4 percent. Per capita personal income grew by 2.6 percent in the state between 2002 and 2003, while the national growth rate was 2.3 percent.



Manufacturing & Industrial Vitality

Industrial production in the U.S. is a measure closely linked to the manufacturing sector. Industrial production began to drop after September 2000 and fell continuously for more than a year before bottoming out in December 2001.



Source: Federal Reserve Board

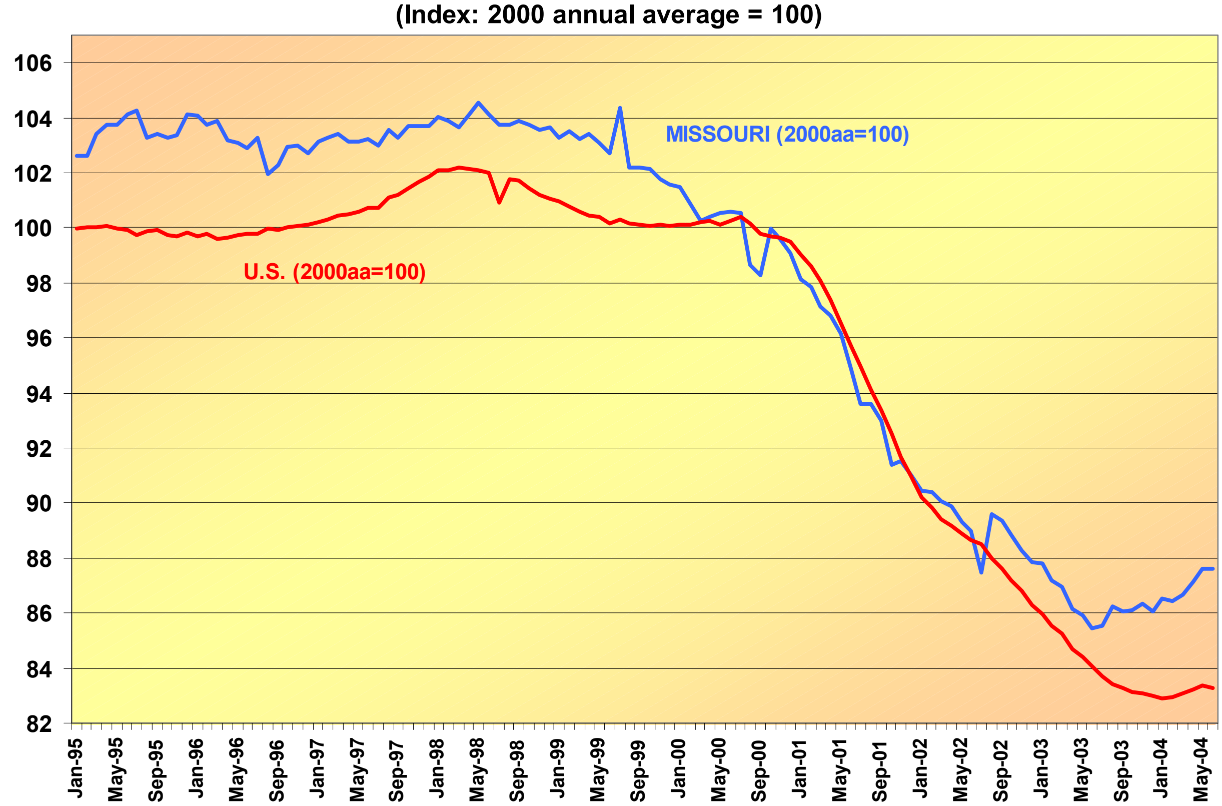
Gains occurred during the first half of 2002, as the economy seemed to be resuming growth. This situation did not last, however, as production began to slip again during the rest of the year, with only a brief respite in November. There was some monthly variation in production during the first half of 2003, but the index has been heading upward since June. The index decreased a little (0.2 percent) in March, following two strong months of growth (0.8 percent in January and 0.7 percent in February). This decrease was not particularly significant, as the decreased activity occurred in the utilities sector as a result of relatively good weather in March. Manufacturing activity was unchanged in March. Two months of strong growth followed, but the most recent month (June) scored a 0.3 percent decrease. Again, a drop in utilities production was the main contributor to the decrease, although the production of consumer goods fell 0.7 percent. Even with this recent decrease, the overall index, at 116.2 percent of its 1997 level, is a strong 5.6 percent higher than it was a year ago. The current level has returned almost to the peak reached in the middle of 2000.

Manufacturing employment should move somewhat consistently with industrial production, although there could be some lag between increased production and rising employment. In particular, productivity gains have made it possible for manufacturers to increase output while holding employment constant or even shedding jobs.

The behavior of manufacturing employment over the past six years or so can be grouped into three time periods. Employment peaked in mid-1998, nearly three years before the beginning of recession. This was a troublesome sign for the economy, leading to slower economic and employment growth, which gradually affected other sectors. Employment then edged down until early 2001, which characterized the first period. The second period was marked by sharply falling employment and lasted from early 2001 through mid-2003. This was the period of the recession and its aftermath. Plummeting manufacturing employment contributed to the recession and held down growth following the official end of the recession.

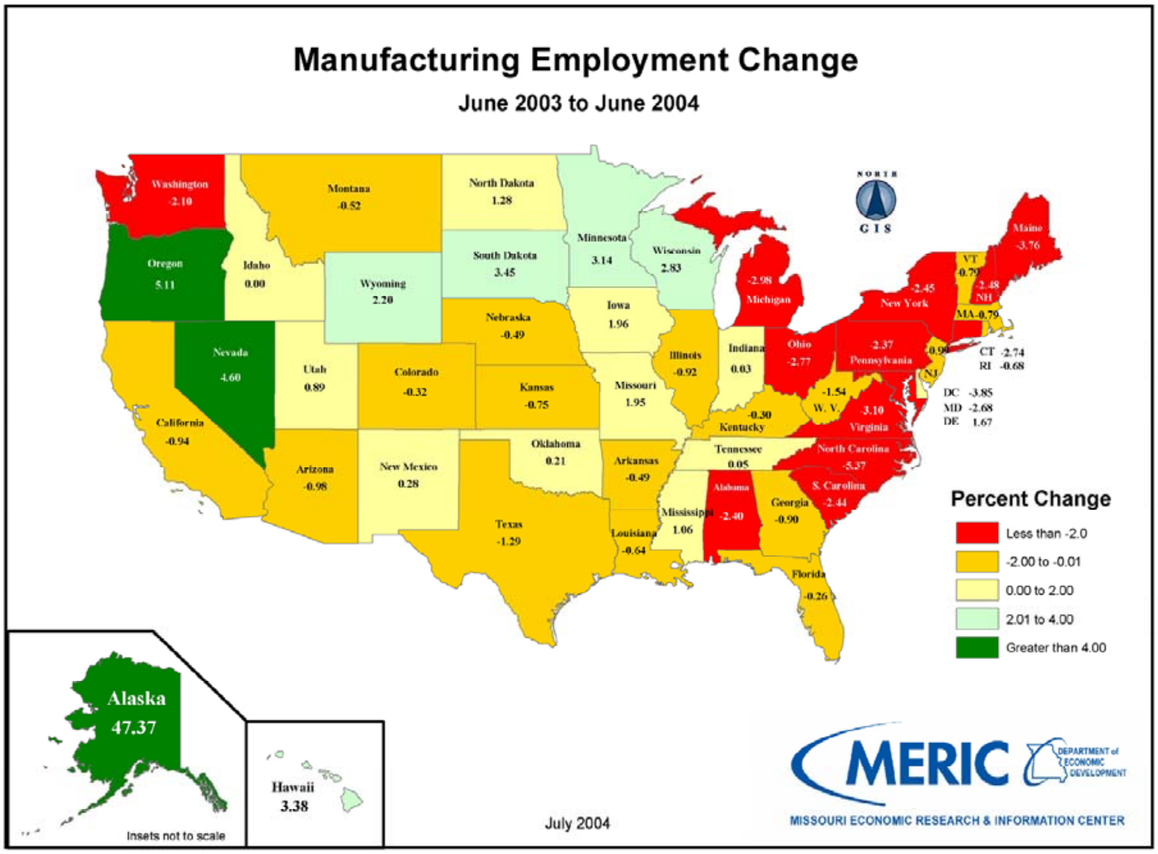
In mid-2003, the manufacturing sector began to stabilize. Employment decreases began to slow at the national level, while Missouri manufacturing actually began to add jobs. This marked the beginning of the stronger economic growth that has more recently become sustained employment growth. As production growth continues, factories should be adding more jobs, with wider employment growth occurring as well.

U.S. AND MISSOURI MANUFACTURING EMPLOYMENT
(Index: 2000 annual average = 100)



Source: MERIC and U.S. Bureau of Labor Statistics

With the recent improvements, manufacturing employment in Missouri is now 6,100 jobs, or 2.0 percent, higher than it was a year ago. Growth has been concentrated in the durable goods industries, particularly transportation equipment (3,100), furniture (1,800), and fabricated metal products (1,300). Among the nondurable goods industries, food manufacturing and printing remain below last year's levels (by 1,100 and 700, respectively). Only 18 states recorded manufacturing increases over the year. Generally, states such as Nevada and Alaska, with low levels of manufacturing employment, have seen the greatest increases.

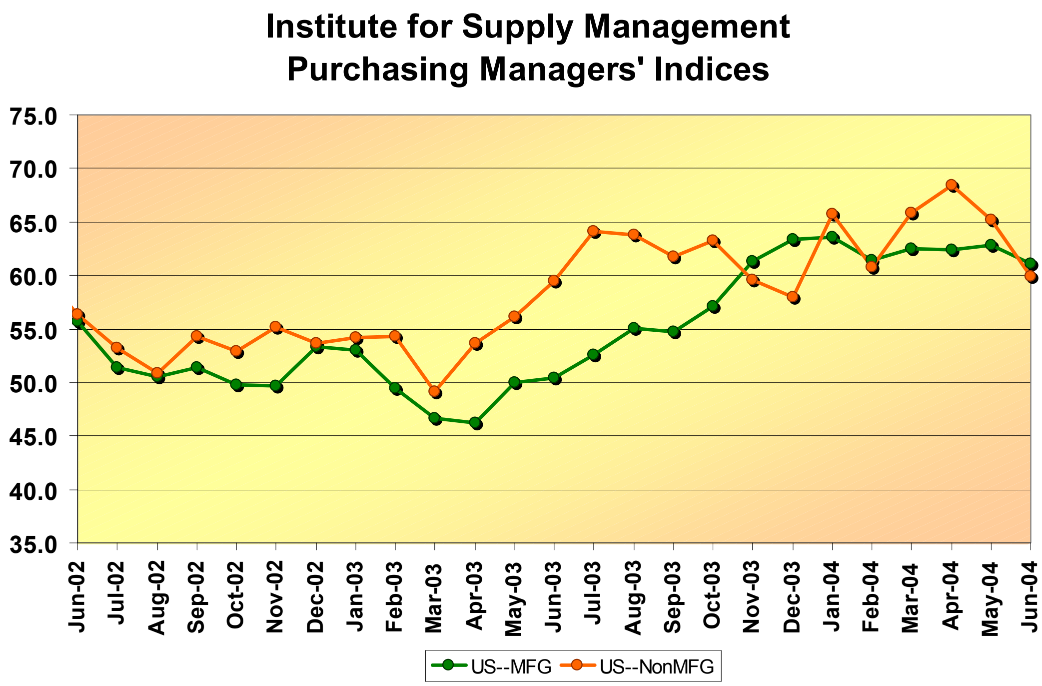


Source: U.S. Bureau of Labor Statistics

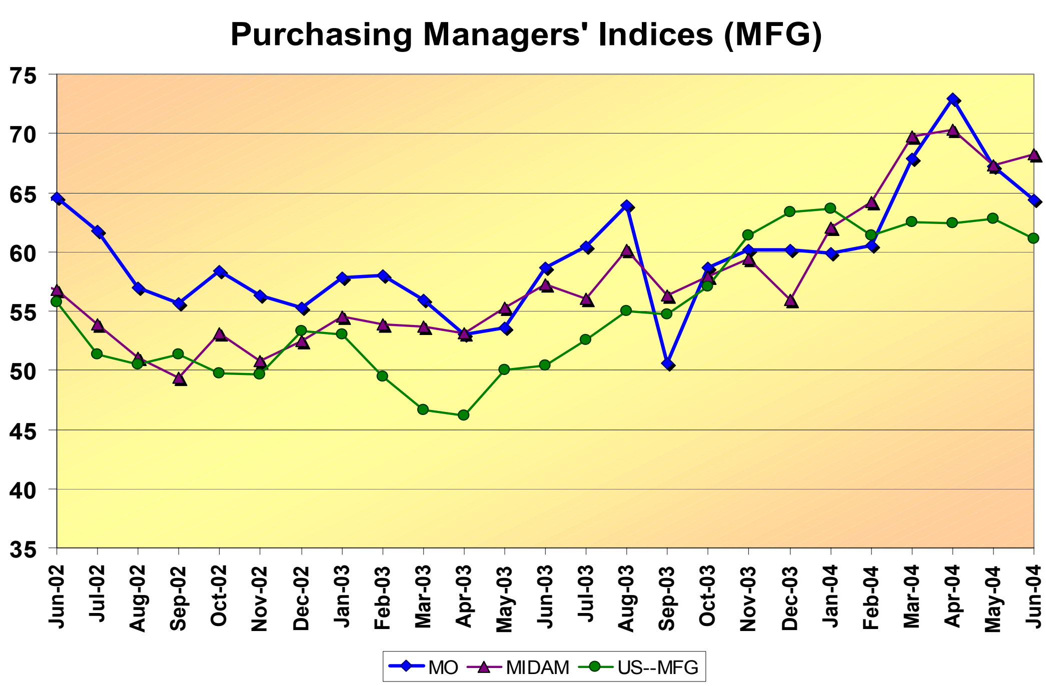
Purchasing Managers' Index

Missouri's Purchasing Managers' Index (PMI) declined from May's score but remains healthy. The state's PMI score decreased to 64.4 from 67.2 in June according to the monthly Mid-American Business Conditions Survey, conducted by Creighton University, Omaha, NE. Missouri's score has remained above the critical 50 mark for 29 consecutive months and has been above 60 for seven of the last eight months.

Economists consider the index, which measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, a key economic indicator. Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.



The national PMI for manufacturing industries was down slightly in June, decreasing 1.7 points to 61.1 in June. This index has been above 60 for nine consecutive months. The nation's PMI for non-manufacturing industries declined by 5.3 points in June to 59.9. Economists cite higher energy prices and rising interest rates as causes for the decline. Despite decreases in June, both indices remain at strong levels and offer continued signs of expansion in both the manufacturing and services industries.

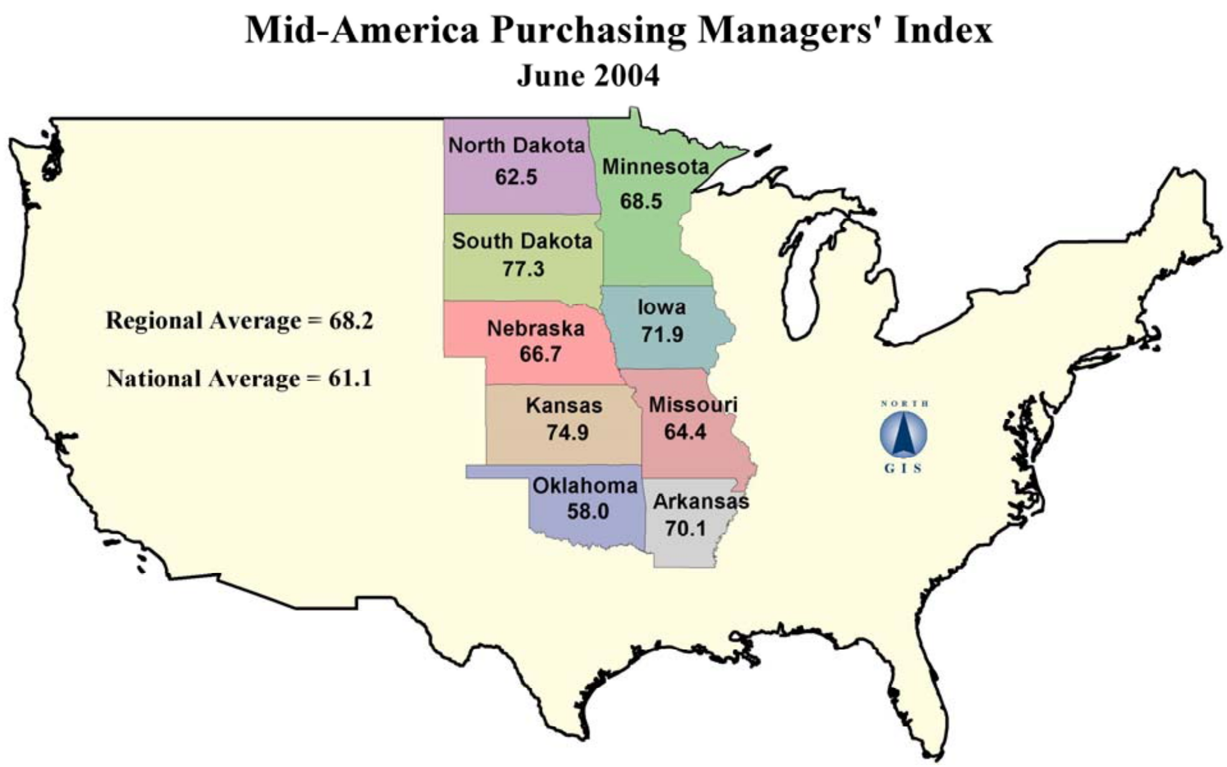


Source: Institute for Supply Management and Creighton University

Missouri's June PMI score was above 50 for the 29th straight month. The state had strong scores in new orders (70.0), production (70.6) and employment (59.8).

Other states in the survey included South Dakota (77.3), Kansas (74.9), Iowa (71.9), Arkansas (70.1), Minnesota (68.5), Nebraska (66.7), North Dakota (62.5) and Oklahoma (58.0).

Overall, the average for the Mid-America Region increased to 68.2 in June from 67.3 in May.

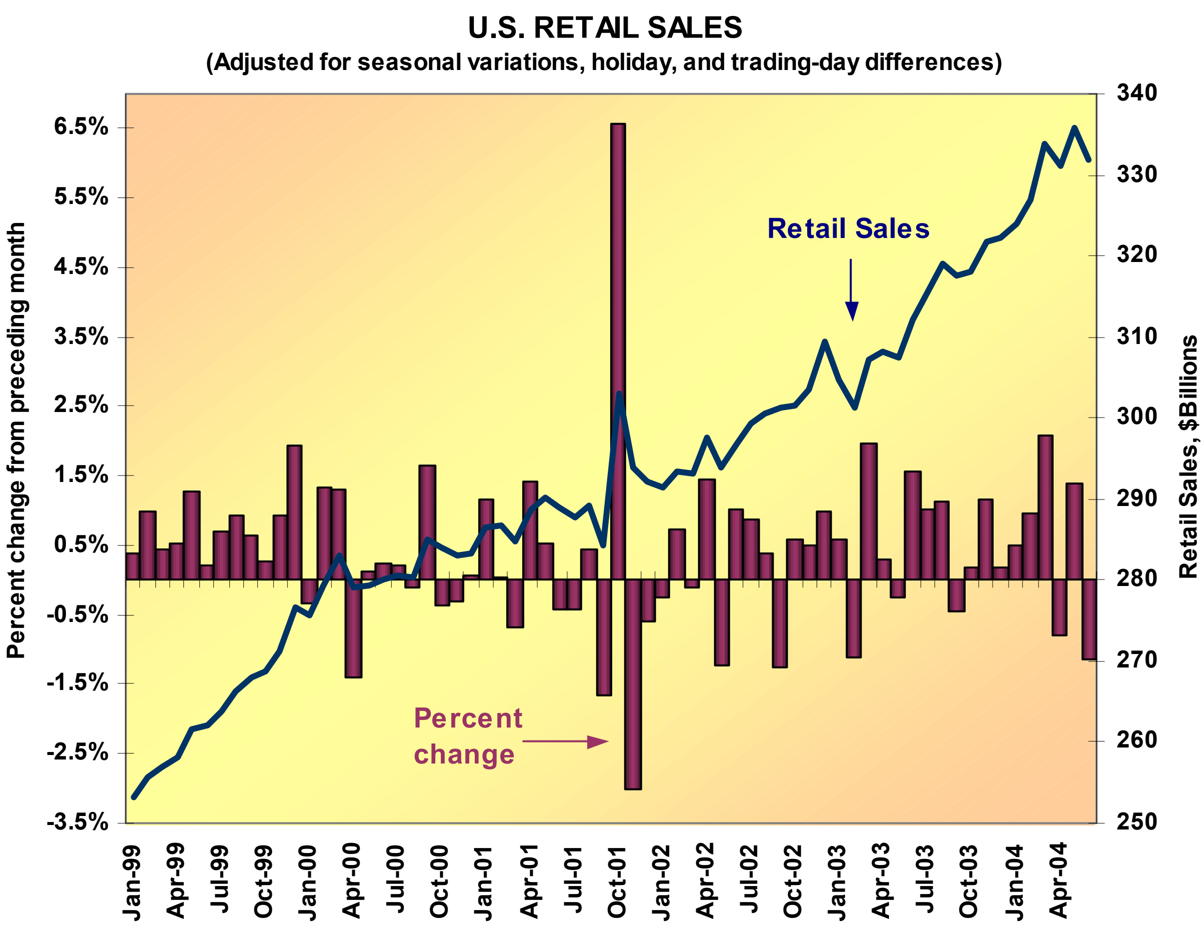


Source: Creighton University, Mid-American Business Conditions Survey

Retail Trade and Taxable Sales

There have been considerable swings in retail trade over the past two years or so, with weather, varying automobile sales and fluctuating gasoline prices contributing to these swings. There have been no back-to-back decreases in retail trade since early 2002. Since mid-2003, sales have moved more consistently upward, marking yet another economic indicator that seems to have firmed since then. Earlier on, tax rebates and cash from residential refinancing contributed to improving retail sales. Larger tax refunds than usual, the result of income tax cuts being retroactive to the beginning of 2003 while withholding was not reduced until the middle of the year, contributed to stronger sales this spring.

More recently, retail sales fell by 1.1 percent in June, though this was not enough to offset May's large increase. Falling auto sales and lower gasoline prices were the main contributors to the decrease, but "core" sales (excluding automobiles and gasoline) were down 0.1 percent. Even with the decreases in April and June, sales are up 6.3 percent over the past year, 7.0 percent excluding automobiles and gasoline. With some of the gains associated with tax refunds and residential refinancing behind us, increases in retail trade will be more dependent on job gains and improving consumer confidence. Higher gas prices would siphon spending from other goods, while lower prices would facilitate increased purchases of those goods.



Source: U.S. Census Bureau

While no specific retail sales data are readily available for Missouri, total taxable sales as measured by the Missouri Department of Revenue (DOR) can serve as a proxy measure. Retail sales account for approximately 70% of taxable sales in Missouri, with an additional 10% from wholesale trade, 10% from service industries such as hotels and amusement parks, 5% from communications industries, and 5% from other industries.

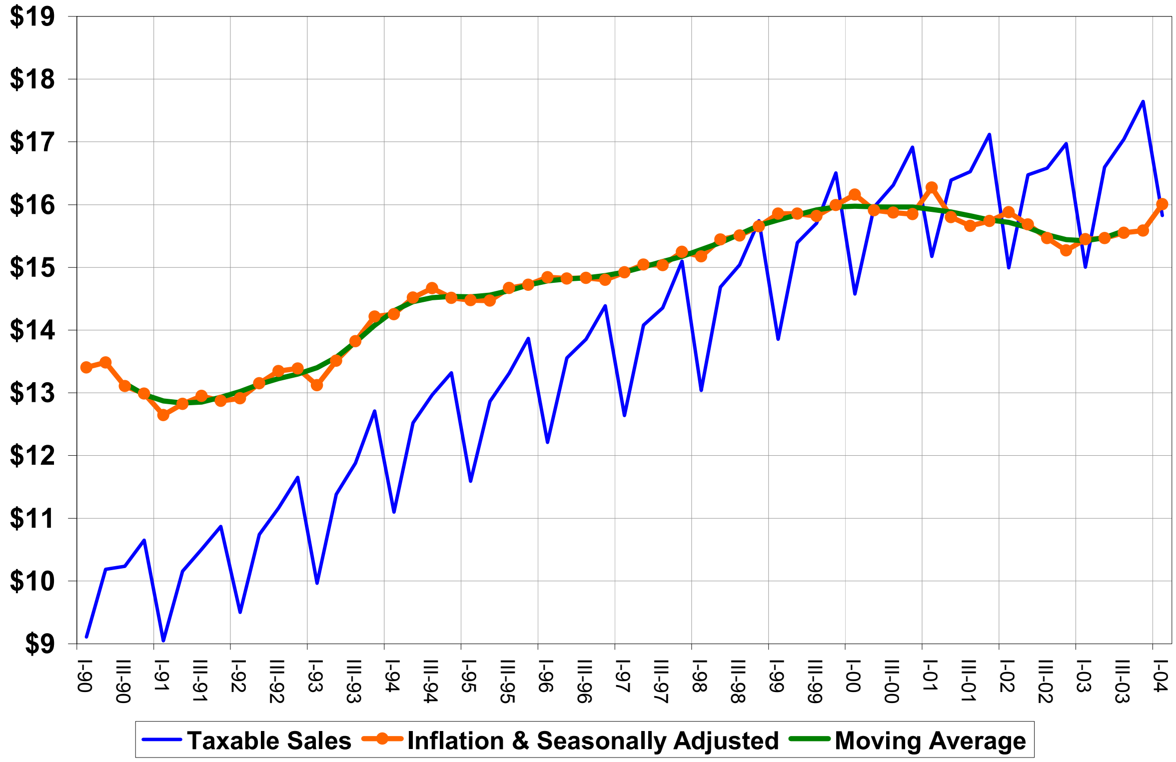
The Missouri Department of Revenue (DOR) recently released preliminary taxable sales estimates for the 1st quarter of 2004. Over this period, $15.8 billion in taxable sales occurred in the state, an increase of 5.5% in actual dollars from the same quarter of 2003. This represents the largest year-to-year increase since 1999.

Quarterly Taxable Sales in Missouri				
	Taxable Sales ($B)	% Change from Year Ago	Inflation & Seasonally Adjusted ($B-00)	% Change from Year Ago (Adjusted)
1Q99	13.9	6.24%	15.9	4.50%
2Q99	15.4	4.83%	15.9	2.66%
3Q99	15.7	4.39%	15.8	2.00%
4Q99	16.5	4.84%	16.0	2.16%
1Q00	14.6	5.21%	16.2	1.91%
2Q00	16.0	3.68%	15.9	0.34%
3Q00	16.3	3.87%	15.9	0.35%
4Q00	16.9	2.49%	15.8	**-0.91%**
1Q01	15.2	4.13%	16.3	0.71%
2Q01	16.4	2.68%	15.8	**-0.67%**
3Q01	16.5	1.32%	15.7	**-1.34%**
4Q01	17.1	1.18%	15.7	**-0.68%**
1Q02	15.0	**-1.19%**	15.9	**-2.41%**
2Q02	16.5	0.53%	15.7	**-0.74%**
3Q02	16.6	0.34%	15.5	**-1.23%**
4Q02	17.0	**-0.86%**	15.3	**-2.99%**
1Q03	15.0	0.06%	15.4	**-2.73%**
2Q03	16.6	0.75%	15.5	**-1.39%**
3Q03	17.0	2.78%	15.6	0.55%
4Q03	17.6	3.99%	15.6	2.07%
1Q04	15.8	5.50%	16.0	3.63%

Note: Taxable sales estimates are now adjusted to year 2000 dollars.

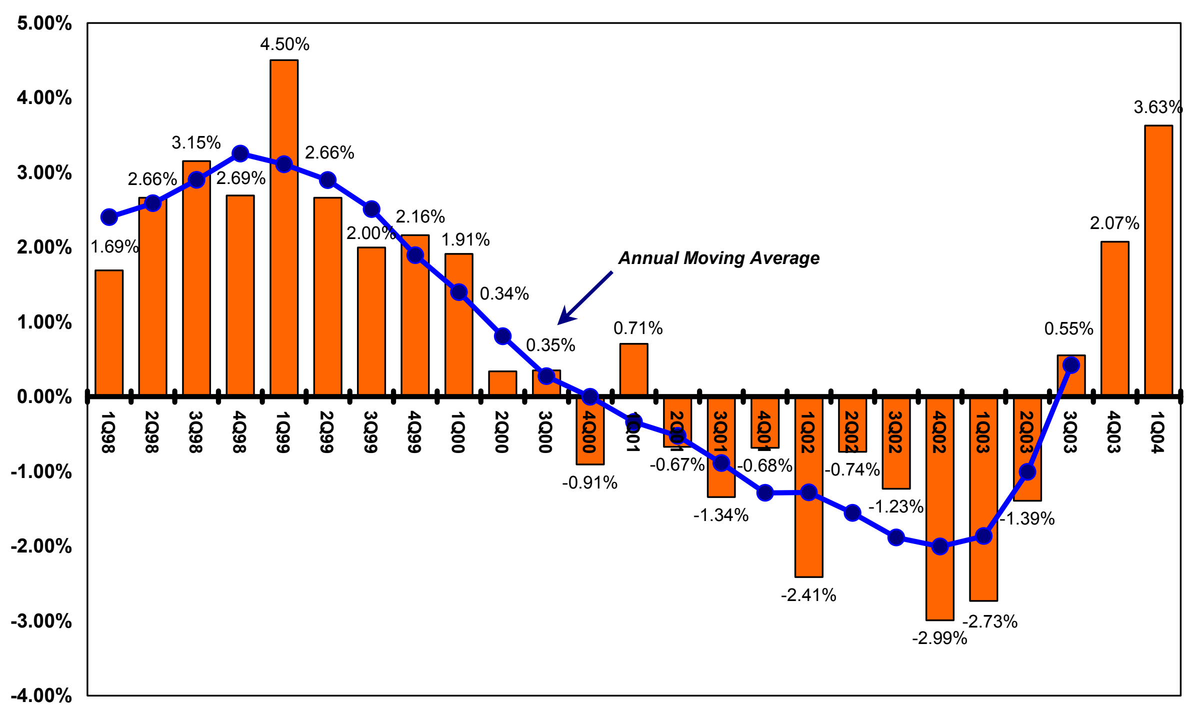
Analysis by MERIC shows that if seasonal and inflationary effects are removed from the data, real year-to-year growth in taxable sales during the 1st quarter of 2004 was 3.63%. This represents the largest year-to-year increase in adjusted taxable sales in nearly five years. The state has experienced year-over-year growth in taxable sales for the last three consecutive quarters.

Quarterly Taxable Sales in Missouri



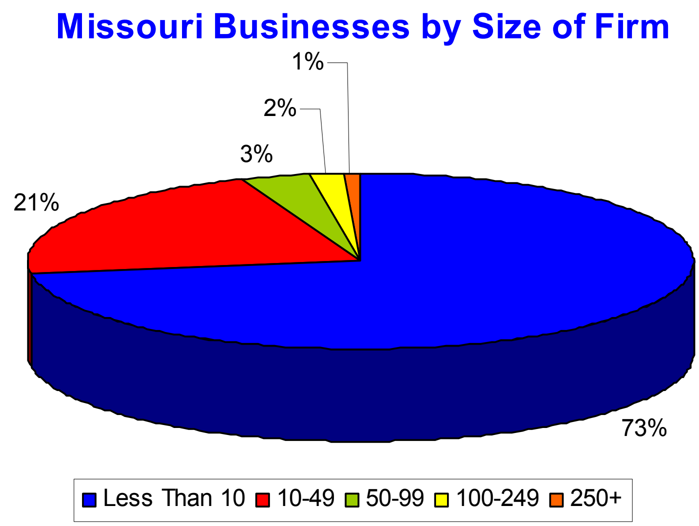
Year-to-Year Percentage Change in Taxable Sales

(Inflation and Seasonally Adjusted)

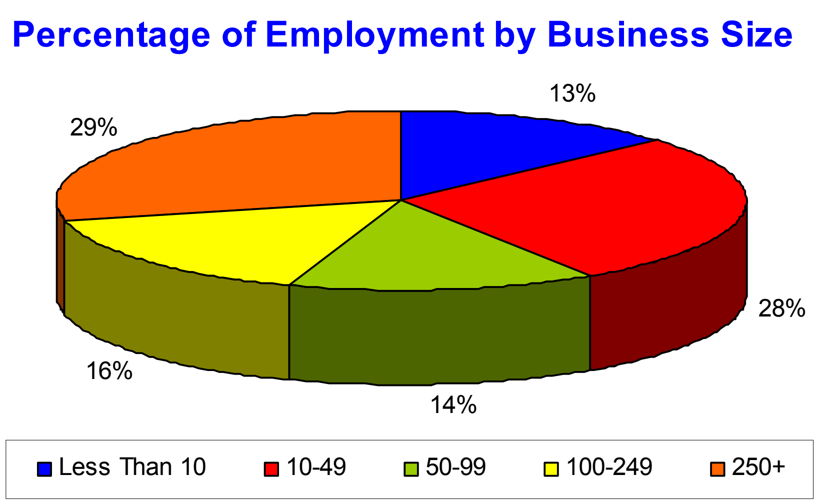


Missouri Employment by Business Size

Missouri reported a record 156,438 private businesses in 2003.[2] Small businesses, those employing fewer than 10 employees, accounted for about 73% of Missouri businesses.



While small businesses make up the majority of establishments in Missouri, they do not account for the largest percentage of employees. Almost 30% of Missouri workers are employed by businesses employing 250 or more workers.



With employment in Missouri totaling more than 2.6 million at the end of 2003, the average number of workers at an establishment was 16.0.

SOURCE: MERIC Quarterly Census of Employment and Wages Program

[2] There were 165,459 establishments in both the private and public sectors during calendar year 2003.

Conclusions

The recession has officially been over for more than 2 ½ years, and GDP growth has been very strong in the past three quarters. Recessionary conditions in Missouri have lifted as well, being replaced by a surging economy. Employment has been increasing in the U.S. since last summer, and more states are seeing improvement.

Missouri employment has increased more rapidly than national employment since last July, increasing by a very strong 82,000 jobs, or 3.1 percent. In fact, Missouri's recent job growth ranks near the top for states, and right at the top this past month. The state's improvement has now become broad enough and long-lasting enough to have achieved the characteristics of the sustained recovery that has been anticipated since the economic trough. The main clouds on the horizon seem to be larger national issues, including high petroleum prices and fragile consumer sentiment stemming from the situation in Iraq.

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